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April 10, 1996

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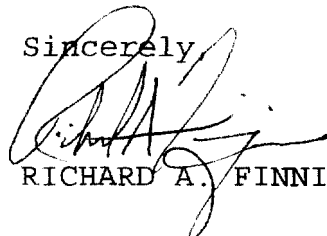
William F. Canton
Acting Secretary
Federal Communications Commission
Room 222
1919 M Street NW
Washington, D.C. 20554

Re: Universal Service NPRM -- CC Docket 96-45

Dear Mr. Canton:

Enclosed you will find the original and nine copies of the Comments of Washington Independent Telephone Association and Oregon Independent Telephone Association in the above referenced docket. Thank you for the opportunity to participate in this very important proceeding.

Sincerely,


RICHARD A. FINNIGAN

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cc: International Transcription Service
Federal-State Joint Board and Staff
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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C.

In the Matter of

Federal-State Joint Board
on Universal Service

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) CC DOCKET NO. 96-45
)
)
)

COMMENTS OF THE
OREGON INDEPENDENT TELEPHONE ASSOCIATION
AND THE
WASHINGTON INDEPENDENT TELEPHONE ASSOCIATION

ON THE ORDER OF PROPOSED RULE MAKING
AND
ORDER ESTABLISHING JOINT BOARD

Its Attorney:

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BEFORE THE FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

)	CC DOCKET NO. 96-45
)	
In the Matter of)	COMMENTS OF THE OREGON
)	INDEPENDENT TELEPHONE
Federal-State Joint Board)	ASSOCIATION AND THE WASHINGTON
on Universal Service)	INDEPENDENT TELEPHONE
)	ASSOCIATION ON THE NOTICE OF
)	PROPOSED RULE MAKING AND ORDER
)	ESTABLISHING JOINT BOARD

These are the comments of the Oregon Independent Telephone Association (hereinafter referred to as "OITA") and the Washington Independent Telephone Association (hereinafter referred to as "WITA") submitted in response to the Notice of Proposed Rulemaking and Order Establishing Joint Board ("NPRM") released March 8, 1996.¹

I. INTRODUCTION AND BACKGROUND

This section provides a short description of the membership of OITA and WITA.

1. OITA. OITA is a trade association consisting of 33 local exchange companies. Of these 33 companies, 11 are cooperatives and 17 are commercial companies each serving fewer than 15,000 access

¹ SPRINT/United of the Northwest, Inc. and GTE Northwest Incorporated are members of both OITA and WITA. US WEST Communications, Inc. is a member of OITA. However, those companies are not participating in these Comments.

lines.² These companies serve small rural communities throughout the state. Fourteen of the companies serve less than 1,000 access lines each. While some companies are located in the Willamette Valley near major metropolitan communities and commerce centers, many serve customers in remote locations such as those along the Snake River. These companies have installed state of the art equipment to provide their customers with the services they need. They rely on universal service funds, Dial Equipment Minutes (DEM) weighting and access charge revenues to help them provide service to their customers.

2. WITA. WITA consists of twenty (20) local exchange telecommunications companies which range in size from Hat Island Telephone Company serving ninety-seven (97) access lines to GTE Northwest Incorporated which serves over 700,000 access lines in the State of Washington.³ The companies serve geographically

² The members of OITA are as follows: Asotin Telephone Company, Beaver Creek Cooperative, Canby Telephone Association, Cascade Utilities, Inc., Citizens Telecom, Clear Creek Mutual Telephone, Colton Telephone Company, Eagle Telephone System, Inc., Gervais Telephone Company, GTE Northwest Incorporated, Helix Telephone Company, Home Telephone Company, Midvale Telephone Exchange, Molalla Telephone Company, Monitor Cooperative Telephone, Monroe Telephone Company, Mt. Angel Telephone Company, Nehalem Telephone & Telegraph, North-State Telephone Company, Oregon-Idaho Utilities, Oregon Telephone Corporation, People's Telephone Company, Pine Telephone System, Inc., Pioneer Telephone Cooperative, Roome Telecommunications, Inc., St. Paul Cooperative Telephone, Scio Mutual Telephone Assoc., Sprint/United Telephone - NW, Stayton Cooperative Telephone, Telephone Utilities of Eastern Oregon, Telephone Utilities of Western Oregon, Trans-Cascade Telephone Co. and US WEST Communications, Inc.

³ The members of WITA are as follows: Asotin Telephone Company, Cowiche Telephone Company, Ellensburg Telephone Company, GTE Northwest Incorporated, Hat Island Telephone Company, Hood Canal Telephone Company, Inland Telephone Company, Kalama Telephone

diverse areas. For example, Pioneer Telephone Company and St. John Telephone Company serve exchanges in the sparsely populated farming country of Eastern Washington. Cowiche Telephone Company serves the apple growing regions on the eastern slopes of the Cascade Mountains. Wahkiakum West serves an economically depressed area which was once a thriving fishing and timber harvesting area in Southwest Washington. Mashell Telephone Company serves the town of Eatonville and surrounding areas near Mt. Rainier, while Lewis River Telephone Company serves exchanges in the foothills of Mt. St. Helens.

The diversity of service areas exists within companies as well. For example, Pacific Telecom, Inc. serves many small exchanges in the sparsely populated eastern portion of the state, but also serves a major suburban area (Gig Harbor).

II. DEFINITION OF UNIVERSAL SERVICE

OITA/WITA believe that the beginning point for this discussion should be the definition of Universal Service.

The Oregon Public Utilities Commission has adopted a definition of Universal Service. In Docket UM 731, the Oregon PUC defined Basic Telephone Service, for Universal Service purposes, as affordable, switched, network access that provides:

- (1) single-party service with,
- (2) voice grade or equivalent transmission parameters,

Company, Lewis River Telephone Company, Mashell Telephone Company, Pacific Telecom, Inc., Pioneer Telephone Company, Sprint/United - NW, St. John Telephone Company, Tenino Telephone Company, The Toledo Telephone Co., Inc., Wahkiakum West Telephone Company, Whidbey Telephone Company, and Yelm Telephone Company.

(3) touch-tone capability,

(4) toll blocking capability at no charge for Oregon Telephone Assistance Program customers (one line per residential household), and

(5) a single directory listing.

Network access includes access to:

(1) the local exchange network, including extended area service (EAS) where ordered by the Oregon Commission, and long distance services;

(2) emergency, 911 services;

(3) relay services for the hearing and speech impaired;

(4) operator services; and

(5) directory assistance.

Service is to be provided at a level which meets existing service quality standards for the state. This includes the capacity to permit basic data transmission, although no specific data transmission capacity above current service standards is required.

WITA has filed a Petition for Rulemaking with the Washington Utilities and Transportation Commission ("WUTC") to define Universal Service for the State of Washington. WUTC Docket No. UT-950742. Under that proposal, the term Basic Telecommunications Service is defined for Universal Service purposes as:

(1) Access to the public switched network with the ability to place and receive calls;

(2) Single-party basic service -- including billing and set-up and installation of basic service;

(3) Access to interexchange carriers consistent with federal and state requirements (i.e., equal access as determined by federal and state standards);

(4) Touchtone;

(5) White Pages directory listing;

(6) Access to emergency service;

(7) Access to directory assistance and operator services;

(8) A minimum calling area to meet basic customer service needs -- basic customer service needs includes access to medical services, schools, some governmental services;

(9) Data transmission capability as allowed by voice grade circuits; and

(10) Quality of service pursuant to WUTC rules.

OITA and WITA believe that a definition of the services to be provided under Universal Service which is consistent with the foregoing definitions is in the public interest.

WITA and OITA encourage the Commission to undertake the definitional process as an ongoing, evolutionary process. A definition which meets the concept of basic service set forth above in these Comments is a minimal definition. As technology and customer demand evolve, the definition of basic services for Universal Service purposes should also continue to evolve.

III. ALL CARRIERS SHOULD CONTRIBUTE TO THE UNIVERSAL SERVICE MECHANISM

OITA and WITA believe that the contributors to the Universal Service Fund Mechanism should be from as broad a base as possible.

The current method for funding Universal Service Support on a presubscribed lines based allocation method should be replaced with a system based upon interstate revenues. A system based upon interstate revenues will comply with the requirement of the Telecommunications Act of 1996 that the Universal Service Support mechanism be funded on an equitable and non-discriminatory basis by all providers of interstate telecommunication services. 47 USC §254(d).

IV. HOW UNIVERSAL SERVICE FUNDS ARE DISTRIBUTED

Distribution should be made in two ways. One avenue of distribution is directly to the customers through existing low income support programs such as Link-Up America and the Telephone Assistance programs in the states. These programs provide support directly to low income customers. They should continue as currently designed.

The second manner of distribution must be to ensure the infrastructure is developed to provide the services that constitute the core of Universal Service. This is necessary to ensure that quality services are available at just, reasonable and affordable rates. Section 254(b)(1). This is also necessary to ensure that access to advanced telecommunications and information services are provided to all regions of the nation. Section 254(b)(2).

This means support is provided directly to the carriers. OITA and WITA are firmly opposed to the use of virtual vouchers. Congress clearly stated its intent that carriers are to receive the Universal Service support,

...only an eligible telecommunications carrier designated under Section 214(e) shall be eligible to receive specific Federal universal service support. A carrier that receives such support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

Section 254(e).

V. COMMENTS ON DIAL EQUIPMENT MINUTES (DEM) WEIGHTING

Given the incredible workloads that have been placed on the Commission to implement the Telecommunications Act of 1996, OITA and WITA suggest that the Commission's resources are best spent in areas other than worrying about reform of the current DEM weighting system. In terms of overall dollars that are involved in this program, and the ability to affect a large number of access lines, the DEM weighting program should not be high on the priority list. However, for those companies that receive DEM weighting support, it is very important.

For example, the range of support in Washington from the DEM weighting program is from a low of \$3.04 per access line per month to a high of \$15.77 per access line per month for those companies that receive DEM waiting assistance. In Oregon, the range of support from the DEM weighting program is from a low of \$3.03 per access line per month to a high of \$31.23 per access line per month. Five companies receive over \$15.00 per access line per month.⁴

Those parties advocating that DEM weighting should be eliminated or "reformed" in some way on the premise that average

⁴ These numbers come from 1993 support figures.

switch cost per access line does not vary greatly by switch size are working from an erroneous premise. Information gathered by the National Exchange Carrier Association in its 1993 NECA Access Market Survey provides support for the common sense proposition that small companies face higher per line switching costs. For example, due to greater population, higher density and more business users, Tier 1 companies have an average of over eighty percent (80%) more minutes of use per line and over twelve (12) times more minutes of use per central office than do NECA Pool Exchange Carriers. The NECA TS Pool members, such as many of the OITA and WITA members, serve a small number of customers per central office. The NECA data shows that the national average of access lines per central office is one thousand two hundred seventy-five (1,275). For Tier 1 exchange carriers, the average number of lines per central office is nine thousand one hundred (9,100). Yet, cost per line of a new digital switch serving 500 access lines equipped for equal access and Signalling System 7 (SS7) is approximately 4.3 times greater than an office serving 10,000 access lines (the average Tier 1 switch size). The higher costs that are experienced are characteristics of the service area that a company is providing service to, not of the company itself. This was recognized when DEM weighting was originally put into effect. It is still the case today.

The LECs serving rural areas have had to make substantial investment in switch upgrades (and in some cases replacements) to accommodate the competitive ventures and system improvements

desired by others. Equal Access, SS7 and 800 portability are a few examples. On the horizon and rapidly approaching is service provider⁵ number portability. DEM weighting is an appropriate mechanism which recognizes the disproportionate impact of the costs of switch improvements for these companies.

Further, it is simply not true that the per line cost of the switch to serve 2,000 lines is the same as the per line switch cost to serve 50,000 lines. Common control features constitute much of the cost of a modern switch. Costs of the Central Processing Unit ("CPU") and software are essentially fixed costs, differing little whether 500 or 10,000 lines are served. Nor are switches sized to serve small areas. A company serving 1,000 customers may have to purchase certain common components for a switch sized for 10,000 customers.

The assumption that cost per access line does not vary significantly by switch size may be true for Tier 1 companies. Those companies can get discounts from manufacturers when they purchase a large volume of switches. Small, rural companies do not have the ability to negotiate volume purchase discounts. Thus, even if switches were sized to serve very small areas, purchasing power varies dramatically by size of company.

Most of the recent upgrades for switches and software are driven by interexchange calling requirements: equal access, 800

⁵ The Washington Utilities and Transportation Commission has also directed companies to develop and implement a plan for number portability which includes location portability. Docket Nos. UT-9414611, UT-941465, UT-951046 and UT-950265, Fourth Supplement Order (October 31, 1995).

number portability, SS7, etc. In Washington and Oregon, many of the small companies have recently spent large sums of monies for software upgrades for these interexchange initiatives. It is the experience of the small companies in the States of Washington and Oregon that they are not able to purchase a switch capable of handling all of these types of features at the same pro rata per line cost that a larger company can.

It is also important to remember why DEM weighting was created. In 1987, the FCC adopted the Federal-State Joint Board's recommendations in CC Docket 80-286 to revise separation rules regarding jurisdictional separations of central office equipment. Those changes substantially reduce the interstate assignment of switching costs.⁶ A further Joint Board recommendation was adopted by the FCC to provide assistance to small local exchange companies by applying an interstate weighting factor.

The DEM weighting program is an appropriate recognition of the fact that companies that serve low density rural areas tend to lack the economies of scope and scale experienced in larger study areas where companies serve more urban, high-density areas. It was true in 1987. It is true today.⁷

⁶ NECA estimates that the change in the treatment of COE switching costs from prior Part 67 separations rules results in a net \$900 million reduction in interstate allocation of switching costs.

⁷ OITA and WITA do support the use of a sliding scale in DEM weighting earlier proposed by the Commission. A linear equation reflecting the change between 10,000 and 50,000 access lines does make sense.

**SECTION VI. THE NEW MECHANISMS SHOULD BE BASED ON
EXISTING COST BASED ACCOUNTING METHODOLOGY FOR
IDENTIFYING UNIVERSAL SERVICE FUNDING REQUIREMENTS.**

The Commission has accounting and separation rules in place that have worked well in identifying and quantifying switching and loop costs. These mechanisms are well understood and are readily applied to identify the extent which costs exceed normal levels.

Some minor changes will need to be made to ensure that the support mechanisms are made explicit and consistent with the requirements of Section 254 of the Telecommunications Act of 1996. This can be done by removing the Universal Service revenue requirements from current access charge rates and recovering those costs through an explicit funding mechanism. For example, this would require only a relatively minor change to Part 69 Access Charge Rules to remove DEM weighting revenue requirements from traffic sensitive access rates.

VII. COMMENTS ON THE CENSUS BLOCK APPROACH

OITA and WITA recognize that the most detailed proxy mechanism that has been suggested to the Commission is the use of the census block approach. However, complexity and detail should not be confused with improvement and accuracy.

Congress has directed the Commission to develop "specific, predictable, and sufficient mechanisms" to preserve and advance Universal Service. Section 254(d). Further, Congress instructed the Commission that the "existing proceeding under Common Carrier Docket 80-286 is not an appropriate foundation on which to base the

proceeding required to develop the specific, predictable and sufficient mechanisms for Universal Service." Joint Explanatory Statement of the Committee of Conference, p.17. WITA and OITA believe this applies to the use of census blocks.

Even if the Census Block approach is still eligible for consideration, it does not meet the requirements to be "predictable" and "sufficient." The Census Block approach continues to evolve. But as it evolves, it loses the ability to be predictable. Further, there is absolutely no evidence that the Census Block approach is sufficient. There is always a danger in becoming overly fascinated with a new concept. However, before a new concept is put into practice, it must be thoroughly tested and demonstrated to be better than the existing mechanism before it is put into practice.

A. Use of Embedded versus Forward Looking Costs.

OITA and WITA believe that embedded costs should be used in any proxy model. This avoids the risk of overstating or understating Universal Service support which will exist if the distribution is dependent upon a guess at forward looking costs. It also reflects the reality of investment made under existing mechanisms to provide the infrastructure to support the services provided today.

B. Uneven Distribution Within a Census Block.

The Commission recognizes that one of the problems with the Census Block model is its assumption that the distribution of subscribers within a census block group is uniform. A uniform

population distribution rarely exists. In many census blocks, the access lines will be near a single location with sporadic dispersion of other access lines throughout the census block. Using an assumption of uniform distribution may overstate the cost of service. The census block approach should be modified to reflect actual patterns of distribution.

C. Use of Wire Centers.

The proxy model that has been developed for census blocks might be reviewed for use on a wire center basis. The primary reason for the suggestion is that it will simplify the problems associated with administration. NECA Tariff 4 identifies approximately 20,000 wire centers. There are 220,000 census block groups. At least the use of wire centers deserves to be investigated to determine if there is a substantial cost savings for administration while not affecting the sufficiency and predictability of the model.⁸

D. Initial Implementation of the Proxy.

If a proxy model is adopted, the use of the proxy model should begin with the price-capped companies (Tier 1 companies). These companies have resources to be able to deal with a model

⁸ OITA and WITA recognize the need to be concerned with whether or not this approach would be competitively and technologically neutral. The use of a wire center would have no bearing on technological neutrality given that it simply is a definition of a geographic scope. OITA and WITA do not believe the use of wire centers, even though they are the incumbent LEC wire centers, will have an adverse competitive effect. When a new entrant wants to enter an area, it will seek to interconnect with the incumbent LEC. As a practical matter, the new entrant is going to have to recognize the incumbent LEC wire center for interconnection and resale.

which is as sophisticated as the Census Block model appears to be (even if used on a wire center basis). This will also allow time for the FCC to determine how the Census Block model is working and to make any adjustments to the model before applying it to smaller companies.

E. Use of a Transition.

WITA and OITA also believe that a transition should be built into whatever new mechanism is developed. Care must be taken to avoid doing harm in making the change. The transition should allow companies time to move from the existing Universal Service support mechanism to the new mechanism without disproportionate dislocations.

VIII. COMPETITIVE BIDDING SHOULD NOT BE ADOPTED

Competitive bidding will not work in an area where only one company has been designated as an eligible telecommunications carrier. Even in areas where it could be used, competitive bidding is fraught with danger.

First, there is no mechanism to ensure that the "winner" of the competitive bidding process will use the funds received to actually provide services required to be provided to meet Universal Service obligations. The incentive from the "incentive bonus" is to gather a pool of funds that can be used for purposes other than providing Universal Service in the census block (or whatever geographic area is used) for which the bid was won.

Second, competitive bidding provides incentives for large companies to use their size to drive out smaller companies. For

example, a major company desiring to enter a state might decide to be the lowest competitive bidder in a number of exchanges served by smaller companies with the thought that they (the larger company) can operate with the lower level of support through the funds they receive from providing services in other areas. This strategy gains market share for the new entrant while driving out the smaller company who cannot afford to operate at the lower price level. In other words, the larger company can afford to run at a loss for a longer period of time. After clearing the market, the larger company can allow the price for services to rise to a profitable level.

Finally, OITA and WITA believe that the administrative costs of running a competitive bidding process would unduly burden the Universal Service Fund mechanism. If anything, the PCS auctions have demonstrated that an auction is cumbersome, expensive and may produce unexpected consequences.⁹

IX. AFFORDABLE RATES

The NPRM calls for comments on what to use to determine when a rate is affordable. WITA and OITA believe that benchmarks can be developed using the existing rates on a national or statewide basis to formulate an affordable rate. Clearly, what is affordable can vary by county within a state as disposable incomes vary across any particular state. Perhaps reference to current Lifeline mechanisms

⁹ The C Block auctions were originally designed, in part, to encourage rural telcos to participate with the thought that this participation will increase the likelihood that PCS services will be offered to rural markets. As the C Block auction has developed, it is clear that very few rural telcos will be successful bidders.

can provide the needed benchmark. Beyond affordable rates, there is a need to develop "comparable" rates so that rates in rural areas are comparable to urban areas. This should be a state by state process.

X. QUALITY OF SERVICE

This issue should be left to the states. Most states have rules relating to the minimum delivery of service and have staff experienced in applying those rules.

XI. NECA SHOULD CONTINUE TO ADMINISTER THE UNIVERSAL SERVICE FUND PROGRAMS

Any Universal Service Support mechanism should be administered efficiently, fairly and neutral. NECA has demonstrated its ability to do just that in its administration of the current mechanisms. NECA is currently administering the Federal Universal Service Fund, the Lifeline Assistance programs and the interstate TRS fund. The systems and personnel are in place to administer a new mechanism. More importantly, the experience is there.

NECA currently uses a system of internal audits and external independent auditors. Those internal and external audits have demonstrated that NECA does act in a fair, neutral and efficient manner. Currently, one-third of NECA's Board of Directors are outside directors (meaning other than representing specific exchange carriers who are members of NECA). WITA and OITA believe that continued use of NECA as an administrator would be far more efficient than establishing a new non-governmental administrator and clearly more efficient than creating a government bureaucracy

to serve as administrator.

XII. SUPPORT FOR SCHOOLS, HEALTH CARE AND LIBRARIES

In providing Universal Service under the Telecommunications Act of 1996 for schools, health care providers and libraries, WITA and OITA encourage the Commission to establish a separate funding mechanism for these institutions. A separate funding mechanism will address the requirement contained within the Telecommunications Act of 1996 that mechanisms be explicit. In addition, the Act itself recognizes that there may be more than one mechanism by allowing the Commission to establish "specific, predictable and sufficient mechanisms." Establishing separate mechanisms for support for this category of customers and a support mechanism for the development of the infrastructure through support payments to carriers will allow all participants in the process to understand what support is needed for each category and how that support is raised and distributed.

XIII. CONCLUSION

WITA and OITA are grateful for the opportunity to comment on this issue. We do note that these comments are not nearly as detailed as they might have been had more time been afforded to comment. While we understand the Commission's short time frame to address this issue and the pressures on the Commission on all sides to implement the Telecommunications Act of 1996, OITA and WITA respectfully note that providing such a limited opportunity for comment favors those large companies with the resources to be able to devote to such an issue on a short period of time and place

organizations such as OITA and WITA at a significant disadvantage.

In any event, we trust that the Commission will accept the foregoing comments in the constructive manner in which they are offered.

Respectfully submitted this 10th day of April, 1996.

OREGON INDEPENDENT TELEPHONE
ASSOCIATION

By: Gary Bauer by RA7
Gary Bauer
Executive Vice President

WASHINGTON INDEPENDENT TELEPHONE
ASSOCIATION

By: Terry Vann
Terry Vann
Executive Vice President

CERTIFICATE OF SERVICE

I, Christina M. Meserve, do certify that on April 10, 1996, copies of the Comments of the Oregon Independent Telephone Association and the Washington Independent Telephone Association were deposited in the U.S. Mail, first class, postage prepaid to the persons on the attached service list.


Christina M. Meserve

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